

DELAWARE AGRICULTURAL
LANDS PRESERVATION FOUNDATION

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

June 30, 2009 and 2008

WHEELER • WOLFENDEN • DWARES

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Delaware Agricultural Lands Preservation Foundation
Dover, Delaware

We have audited the accompanying financial statements of the governmental activities and special revenue fund of Delaware Agricultural Lands Preservation Foundation (the Foundation) as of June 30, 2009 and 2008, which collectively comprise the Foundation's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and special revenue fund of the Foundation as of June 30, 2009 and 2008, and the change in financial position for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2009 on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Board of Trustees
Delaware Agricultural Lands Preservation Foundation

Management's discussion and analysis and budgetary comparison schedules on pages 6 through 15 and 31 through 33, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Wheeler, Wolfenden & Swales, PA

December 15, 2009
Wilmington, Delaware

Delaware Agricultural Lands Preservation Foundation

Management's Discussion and Analysis

Our discussion and analysis of the Delaware Agricultural Lands Preservation Foundation's financial performance provides an overview of the Foundation's financial activities for the year ended June 30, 2009.

FINANCIAL HIGHLIGHTS

The Foundation's net assets increased by \$12,437,916, from \$155,896,195 in fiscal year 2008 to \$168,334,111 in fiscal year 2009, with most of this increase coming in the form of farm properties added to the program.

USING THIS FINANCIAL REPORT

This annual financial report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Foundation as a whole, and then proceed to provide an increasingly detailed look at specific financial activities.

REPORTING THE FOUNDATION AS A WHOLE

The Statement of Net Assets and Statement of Activities

The Statement of Net Assets and the Statement of Activities report information about the Foundation as a whole and about its activities that are necessary in determining whether the Foundation's financial health is improving or deteriorating. These statements include all assets and liabilities using the current financial resources measurement focus and the modified accrual basis of accounting. All revenues and expenses pertaining to fiscal years 2009 and 2008 are taken into consideration regardless of when cash is received or paid.

REPORTING THE FOUNDATION'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

Our analysis of the Foundation's major funds and fund financial statements provides detailed information about the most significant funds – not the Foundation as a whole.

Governmental Funds

All of the Foundation's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the modified accrual method of accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a

Delaware Agricultural Lands Preservation Foundation

Management's Discussion and Analysis

detailed short-term view of the Foundation's general government operations and the basic services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources available to spend in the near future to finance the Foundation's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements. Activities related to capital assets and compensated absences are the primary reconciling items.

ENTITY-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Foundation, assets exceeded liabilities by \$168,334,111.

The majority of the accounts payable left at the end of fiscal year 2009 are monthly charges for items such as vehicle rental and utilities, with only one significant item in the form of the Foundation's June 2009 legal services bill for \$10,908. No problems in meeting these expenses out of the money remaining to the Foundation at the end of fiscal year 2009 are anticipated.

Most of the \$12,437,916 increase in net assets came in the form of capital assets, which increased by \$18,751,913, mostly due to the farmland added to the Foundation program in fiscal year 2009.

Delaware Agricultural Lands Preservation Foundation

Management's Discussion and Analysis

TABLE 1

NET ASSETS

A comparative net assets analysis for fiscal years 2009 and 2008 are as follows:

	Governmental Activities	
	<u>2009</u>	<u>2008</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ -	\$ 10,523
Cash and Cash Equivalents Held by State	3,698,118	9,995,464
Rollback Taxes Receivable	-	32,473
Interest Income Receivable	199	92
Total Current Assets	<u>3,698,317</u>	<u>10,038,552</u>
Noncurrent Assets		
Capital Assets, Net of Depreciation	<u>164,658,537</u>	<u>145,906,624</u>
TOTAL ASSETS	<u><u>\$ 168,356,854</u></u>	<u><u>\$ 155,945,176</u></u>
LIABILITIES		
Current Liabilities		
Accounts Payable	\$ 12,920	\$ 37,362
Accrued Salaries and Related Costs	2,603	5,502
Total Current Liabilities	<u>15,523</u>	<u>42,864</u>
Long-Term Liabilities:		
Compensated Absences	<u>7,220</u>	<u>6,117</u>
Total Long-Term Liabilities	<u>7,220</u>	<u>6,117</u>
TOTAL LIABILITIES	<u><u>22,743</u></u>	<u><u>48,981</u></u>
NET ASSETS		
Invested in Capital Assets	164,658,537	145,906,624
Unrestricted	<u>3,675,574</u>	<u>9,989,571</u>
TOTAL NET ASSETS	<u><u>\$ 168,334,111</u></u>	<u><u>\$ 155,896,195</u></u>

Delaware Agricultural Lands Preservation Foundation

Management's Discussion and Analysis TABLE 2

CHANGES IN NET ASSETS

	Governmental Activities	
	<u>2009</u>	<u>2008</u>
REVENUES		
General Revenue:		
Earnings on cash and investments	\$ 13,303	\$ 6,697
Charges to county governments	403,893	3,523,720
Rollback Taxes	37,272	45,108
License Plate Income	5,180	5,880
Miscellaneous income	-	759
Program Revenue:		
Operating grants and contributions	6,000,000	13,164,128
Capital grants and contributions	<u>7,148,855</u>	<u>14,051,814</u>
Total Revenues	13,608,503	30,798,106
EXPENSES		
Farmland Preservation	(670,587)	(1,072,209)
Administrative Services:		
Operating Services	(150,000)	(113,470)
Contractual Services	<u>(350,000)</u>	<u>(350,000)</u>
Total Expenses	<u>(1,170,587)</u>	<u>(1,535,679)</u>
CHANGE IN NET ASSETS	<u>\$ 12,437,916</u>	<u>\$ 29,262,427</u>

The Foundation's Funds

The Foundation's governmental funds (as presented on the balance sheet) as of June 30, 2009 reported a total fund balance of \$3,698,118 compared to last year's total fund balance of \$9,995,464.

Governmental Funds

In the fiscal year 2008 audit the Foundation reported for the first time land donated to the Foundation in previous fiscal years, though unrecorded in previous audits. The lack of this revenue in fiscal year 2009 is one factor to which the decrease is largely due, as is the cut in State funding by \$4,000,000.

Delaware Agricultural Lands Preservation Foundation

Management's Discussion and Analysis TABLE 3

REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

	Special Revenue Fund	
	<u>2009</u>	<u>2008</u>
REVENUES		
State grant	\$ 6,000,000	\$ 10,000,000
Federal grant	-	3,164,128
Charges to county governments	403,893	3,523,720
Blenheim transfer	-	-
Rollback taxes	37,272	45,108
License plate income	5,180	5,880
Earnings on cash and investments	13,303	6,697
In-kind contributions	7,148,855	14,051,814
Donation	-	-
Miscellaneous income	-	759
	<hr/>	<hr/>
TOTAL REVENUES	13,608,503	30,798,106
EXPENDITURES		
Current:		
Farmland Preservation	705,136	1,106,365
Administrative Services		
Operating	428,322	393,250
Contractual	28,485	28,403
Total Administrative	<hr/> 456,807	<hr/> 421,653
Capital Outlays:		
Equipment	9,091	9,984
Property	<hr/> 18,750,363	<hr/> 27,896,861
TOTAL EXPENDITURES	19,921,397	29,434,863
NET CHANGE IN FUND BALANCES	(6,312,894)	1,363,243
FUND BALANCES, BEGINNING OF YEAR	<hr/> 9,995,688	<hr/> 8,632,445
FUND BALANCES, END OF YEAR	<hr/> <u>\$ 3,682,794</u>	<hr/> <u>\$ 9,995,688</u>

Delaware Agricultural Lands Preservation Foundation

Management's Discussion and Analysis

The decrease in revenues in fiscal year 2009 was due largely to the factors mentioned in the *Governmental Funds* discussion.

Expenses exceeded revenues in fiscal year 2009 resulting in a \$6,312,894 decrease in fund balances.

BUDGET INFORMATION

The Foundation's budget is prepared in accordance with the modified accrual basis of accounting. The most significant budgeted funds are Special Funds, from which most of the Foundation's activities are funded, with a small portion of its funding coming from in-kind contributions from the General Funds. The Foundation received from the State of Delaware the exact amount it budgeted for fiscal year 2009, and stayed within the budget approved by the Controller General and the Office of Management and Budget by making use of carryover funds and in-kind contributions. The Foundation acquires development rights when they become available and the value of each development right significantly varies. The significant carryover funds from June 30, 2008 allowed the Foundation to purchase more easements during 2009 than originally anticipated, resulting in a significant negative budget to actual difference.

The following are significant examples where the Foundation had to make use of its savings from previous fiscal years or in-kind contributions to cover unbudgeted costs.

Legal

Due to drastically greater than expected costs related to the Foundation's continuing efforts to obtain from the Federal Government funds it promised to the Foundation and then reneged on, the Foundation was forced to spend \$24,072 more on Legal costs than had been budgeted. This funding came from carryover funds from previous fiscal years.

Mapping

In order to pay for the necessary minimum Mapping requirements without going over budget the Foundation used \$6,975. The \$6,975 used was from carryover funds from previous fiscal years.

Salaries

The majority of the Foundation's staff are employees of the Delaware Department of Agriculture (DDA), which pays their entire salaries. The time spent specifically on Foundation activities is donated to the Foundation from DDA as in-kind contributions. The total fiscal year 2009 salary amount was approximately \$331,202.

Delaware Agricultural Lands Preservation Foundation

Management's Discussion and Analysis

SPECIAL FUND REVENUE INFORMATION

The Special Fund receives most of its revenue in the form of State and Federal Grants and County Reimbursements on purchases of easement rights – fiscal year 2009 was an aberration in that as with 2008 a large portion of the Foundation's Special Fund revenue reported in the audit came from in-kind contributions, although the in-kind contributions were considerably less than those reported as revenue in fiscal year 2008. Fiscal year 2009's abnormally large in-kind contributions consisted mostly of cash and land from the recent obtainment of the Wilson Farm and from previously earned but unrecorded revenue discovered after reappraisal of land obtained by the Foundation in previous fiscal years.

The Foundation's budget for the State Grant each fiscal year is based on what the State informs the Foundation it is willing to grant in that fiscal year. The declining state of Delaware's economy towards the end of fiscal year 2008 resulted in the Foundation receiving only \$6,000,000 from the State in fiscal year 2009. The economy continues to falter and the Foundation will only receive \$3,000,000 from the State of Delaware in fiscal year 2010.

Federal Grant money, like the State Grant money, is budgeted by the Foundation each fiscal year on the basis of what the Federal Government is willing to grant in each fiscal year. The Federal Grant is a fixed amount set aside for the Foundation in much the same way that the State Grant money is, although the expenses for which it pays are first funded by the State Grant money, which is then reimbursed from the Federal Grant money upon the Foundation's request. The Federal Grant money is not counted as revenue until it is used to reimburse the State Grant funds.

The Foundation is still waiting to receive the \$3,030,045 the Federal Government agreed to grant to the Foundation in fiscal year 2008. While the Federal Government has yet to officially change its position that it is not obligated to grant this money, there is considerably more reason to expect the Foundation to ultimately receive this money than there was at this time last year. Negotiations with the Federal Government have been going well and an additional \$145,070.33 has been added to the grant, something that presumably would not be done if the Federal Government did not expect to ultimately pay the Foundation.

County Reimbursement money is not budgeted by fiscal year but by rounds, the cycles in which new farms are purchased and added to the preservation program. The Counties agree to reimburse the Foundation up to a certain amount for selected properties in each round to be determined by percentage on each property. As estimates on the costs of the various properties are subject to change, it is not possible to predict accurately at the beginning of each fiscal year (or for that matter throughout most of the remainder of the fiscal year) how much County Reimbursement money the Foundation will receive. In fiscal year 2009 the

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Management's Discussion and Analysis

Foundation received \$403,893 from Kent County for farms purchased in Rounds 13 and 12. It is difficult to say at this time how much money will be granted to the Foundation by the Counties in fiscal year 2010.

The Foundation's fixed assets are almost completely composed of farmland which the Foundation obtains through the purchase of easement rights of farms enrolled in the Preservation Program. Although the amount and cost of farmland purchased in fiscal years 2009 and 2008 did not differ significantly the amount of fixed assets added in fiscal year 2008 was significantly higher than the amount added in fiscal year 2009 due to the presence in the fiscal year 2008 audit of \$13.7 million of previously unrecorded farmland. The amount of fixed assets the Foundation expects to add in fiscal year 2010 will depend on how much funding it receives from the Federal Government and the Counties. As mentioned above it seems more likely than in the past that the Foundation will receive the disputed reimbursement money from the Federal Government. This would give the Foundation approximately \$5.5 million to spend on the acquisition of farmland. Estimating the total costs of survey and legal fees connected with the acquisition of farmland in fiscal year 2010 at \$500,000, the Foundation should be able to purchase easements with a value of at least \$5,000,000 if it gets the disputed money from the Federal Government, and at least \$2,000,000 if it does not.

Rollback taxes are assessed on land that, having been valued, assessed, and taxed as agricultural land, is used for purposes other than farming. A portion of these taxes go to the school district wherein the property is located, and the Foundation receives the remainder less 7.5% paid to the county in which the property is located. Rollback tax revenue decreased slightly from \$45,108 in fiscal year 2008 to \$37,272 in fiscal year 2009. It is difficult to predict any trends for fiscal year 2010 regarding Rollback tax income.

Interest income increased from \$6,697 in fiscal year 2008 to \$13,303 in fiscal year 2009 due largely to interest earned on cash received by the Foundation along with the Wilson Farm. Most of this interest however is used only to fund projects and maintenance related to the Wilson Farm. Interest on the funds contained in the Foundation's own interest bearing savings account came only to \$3,017. With the creation of new spending lines in the State's Accounting System funds granted to the Foundation are no longer accruing interest in the Foundation's savings account, but are instead being held by the State without interest accrual until they are spent. It is unlikely that the interest useable by the Foundation for projects unrelated to the Wilson Farm will be much greater in future than it was in fiscal year 2009.

License plate income was down from \$5,880 in fiscal year 2008 to \$5,180 in fiscal year 2009. Considering the state of the local and national economies it is not surprising that the income from the sale of license plates by the Foundation decreased. It is perhaps more surprising that it decreased by such a small amount. If

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Management's Discussion and Analysis

the state of the economy in fiscal year 2010 does not deteriorate significantly more than it already has in fiscal year 2009 it seems reasonable to predict that fiscal year 2010's Foundation license plates revenue should be about the same as it was in fiscal year 2009.

Total in-kind contributions decreased from \$14,051,814 in fiscal year 2008 to \$7,148,855 in fiscal year 2009. In fiscal year 2008 in-kind contributions were abnormally large due to the inclusion in the audit report for the first time of land worth \$13,742,606 donated to the Foundation in previous fiscal years. Though not as large as last fiscal year the in-kind contributions in fiscal year 2009 were also abnormally large. They consisted of the \$4,900,000 value of the recently obtained Wilson Farm, the \$894,810 cash obtained with it, \$1,022,843 added to the Foundation's Fixed Assets after reappraisal of land in the program, and \$331,202 of in-kind contributions from the Delaware Department of Agriculture, with which agency the Foundation shares many expenses, including personnel, supplies, and contractual costs. Any future in-kind contributions are expected to be of this nature, and only modest increases in the \$331,202 total can be expected.

GENERAL FUND INFORMATION

A relatively small amount of the Foundation's expenses are covered by the State's General Fund in the form of in-kind contributions on items such as personnel, supplies, contractual services, etc. that the Foundation shares with the Planning section of the Delaware Department of Agriculture, by which many of the Foundation's staff are concurrently employed. In fiscal year 2009 the Foundation used \$331,202 of General Funds. A modest increase in use of General Funds may occur in fiscal year 2010, but if such increase does occur it is unlikely to be significant.

FACTORS EXPECTED TO HAVE AN EFFECT ON FUTURE OPERATIONS

The State of Delaware, its three Counties, and the whole of the United States are experiencing economic difficulties which could affect the amount of funding the Foundation receives at the State, County, and Federal levels in fiscal year 2010 and beyond. However, the same was true of fiscal year 2009 and the Foundation managed to meet all of its basic obligations and still purchase more development rights. It seems unlikely, despite the decrease in State funding from \$6,000,000 in fiscal year 2009 to \$3,000,000 in fiscal year 2010, that the worst case scenario outlined in last fiscal year's MD&A will happen in fiscal year 2010. The chances of the Foundation receiving the Federal funding it was promised seem good, and it is possible the Foundation will receive an additional \$5,000,000 (approximately) from the Federal Government for Round 14. As of June 30, 2009 the Foundation has in hand \$157,365 in its State interest-bearing savings account; \$2,624,504 of State-held funds for surveys, appraisals, and acquisitions of easement and development rights

Delaware Agricultural Lands Preservation Foundation

Management's Discussion and Analysis

and the legal costs associated with them; and \$2,042 held by the State in a payroll line.

Under these circumstances, without receiving any of the funds it expects for fiscal year 2010, the Foundation could continue to function for only one more fiscal year. However, it seems even more unlikely now than it did at the end of fiscal year 2008 that the Foundation will lose its yearly State funding or Rollback income, even though the State will probably continue giving the Foundation considerably less than the \$10,000,000 per year it was once accustomed to. As long as it receives some funding from the State to cover its payroll and other operating expenses each fiscal year the Foundation can continue to function at its most basic level indefinitely.

Requests for Information

This financial data is designed to provide a general overview of the Delaware Agricultural Lands Preservation Foundation's finances for all those with an interest in the Foundation's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Accounting Specialist at Delaware Agriculture Lands Preservation Foundation, 2320 South DuPont Highway, Dover, Delaware 19901.

DELAWARE AGRICULTURAL LANDS PRESERVATION FOUNDATION

STATEMENTS OF NET ASSETS

June 30, 2009 and 2008

	ASSETS	
	Governmental Activities	
	2009	2008
ASSETS		
Current assets		
Cash and cash equivalents	\$ -	\$ 10,523
Cash and cash equivalents – held by the State	3,698,118	9,995,464
Total cash and cash equivalents	3,698,118	10,005,987
Rollback taxes receivable	-	32,473
Interest income receivable	199	92
Total current assets	3,698,317	10,038,552
Noncurrent assets		
Capital assets – net of depreciation	164,658,537	145,906,624
TOTAL ASSETS	\$ 168,356,854	\$ 155,945,176
LIABILITIES AND NET ASSETS		
LIABILITIES		
Current liabilities		
Accounts payable	\$ 12,920	\$ 37,362
Accrued salaries and related costs	2,603	5,502
Total current liabilities	15,523	42,864
Long-term liabilities		
Compensated absences	7,220	6,117
Total liabilities	22,743	48,981
NET ASSETS		
Invested in capital assets	164,658,537	145,906,624
Unrestricted	3,675,574	9,989,571
Total net assets	168,334,111	155,896,195
TOTAL LIABILITIES AND NET ASSETS	\$ 168,356,854	\$ 155,945,176

The accompanying notes to the basic financial statements are an integral part of these financial

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2009

The accompanying notes to the basic financial statements are an integral part of these financial statements.

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2008

The accompanying notes to the basic financial statements are an integral part of these financial statements.

DELAWARE AGRICULTURAL LANDS PRESERVATION FOUNDATION

BALANCE SHEETS

June 30, 2009 and 2008

	Special Revenue Fund	
	2009	2008
ASSETS		
ASSETS		
Cash and cash equivalents	\$ -	\$ 10,523
Cash and cash equivalents – held by the State	3,698,118	9,995,464
Total cash and cash equivalents	3,698,118	10,005,987
Rollback taxes receivable	-	32,473
Interest income receivable	199	92
TOTAL ASSETS	\$ 3,698,317	\$ 10,038,552
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Current liabilities		
Accounts payable	\$ 12,920	\$ 37,362
Accrued salaries and related costs	2,603	5,502
Total current liabilities	15,523	42,864
Total liabilities	15,523	42,864
FUND BALANCE		
Unreserved	3,682,794	9,995,688
TOTAL LIABILITIES AND FUND BALANCE	\$ 3,698,317	\$ 10,038,552

The accompanying notes to the basic financial statements are an integral part of these financial

DELAWARE AGRICULTURAL LANDS PRESERVATION FOUNDATION
RECONCILIATION OF BALANCE SHEETS TO STATEMENTS OF NET ASSETS

For the Fiscal Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
TOTAL FUND BALANCES	\$ 3,682,794	\$ 9,995,688
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Capital assets net of accumulated depreciation as detailed in the footnotes are included in the statement of net assets.	164,658,537	145,906,624
Long-term liabilities applicable to the governmental activities are not due and payable in the current period and, therefore, are not reported as fund liabilities. Those liabilities consist of:		
Compensated absences	<u>(7,220)</u>	<u>(6,117)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	\$ <u>168,334,111</u>	\$ <u>155,896,195</u>

The accompanying notes to the basic financial statements are an integral part of these financial statements.

DELAWARE AGRICULTURAL LANDS PRESERVATION FOUNDATION

STATEMENTS OF REVENUE, EXPENDITURES AND
CHANGE IN FUND BALANCES

For the Years Ended June 30, 2009 and 2008

	Special Revenue Fund	
	2009	2008
REVENUE		
Farmland preservation	\$ 6,000,000	\$ 10,000,000
Federal grant	-	3,164,128
County reimbursements	403,893	3,523,720
Rollback taxes	37,272	45,108
License plate income	5,180	5,880
In-kind contribution	7,148,855	14,051,814
Other income	-	759
Interest income	13,303	6,697
Total revenue	13,608,503	30,798,106
EXPENDITURES		
Current		
Easement and development rights acquisition		
Appraisals	223,413	137,825
Contracts	46,681	55,610
Equipment/fleet rental	7,169	15,687
Legal fees	163,661	569,162
Mapping	192,226	191,183
Public/legal notice	261	3,500
Survey fees	68,117	130,898
Travel	3,608	2,500
Total easement and development rights acquisition	705,136	1,106,365
Administrative		
Audit	26,511	24,150
Insurance	-	2,285
Miscellaneous	15,344	-
Office expense	8,561	15,468
Salaries and related expenses	406,391	379,750
Total administrative expenses	456,807	421,653
Capital outlay		
Equipment	9,091	9,984
Easements and development rights	18,750,363	27,896,861
Total capital outlay	18,759,454	27,906,845
Total expenditures	19,921,397	29,434,863
Net change in fund balance	(6,312,894)	1,363,243
Fund balance – beginning of year	9,995,688	8,632,445
Fund balance – end of year	\$ 3,682,794	\$ 9,995,688

The accompanying notes to the basic financial statements are an integral part of these financial statements.

DELAWARE AGRICULTURAL LANDS PRESERVATION FOUNDATION

RECONCILIATION OF STATEMENTS OF REVENUE, EXPENDITURES AND CHANGE IN
FUND BALANCES TO STATEMENTS OF ACTIVITIES

June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
NET CHANGE IN FUND BALANCES	\$ (6,312,894)	\$ 1,363,243

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$1,000 are capitalized, and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital outlays	18,759,454	27,906,845
Depreciation	<u>(7,541)</u>	<u>(6,636)</u>
Total	18,751,913	27,900,209

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Compensated absences	<u>(1,103)</u>	<u>(1,025)</u>
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CHANGE IN NET ASSETS – GOVERNMENTAL ACTIVITIES	\$ <u>12,437,916</u>	\$ <u>29,262,427</u>
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The accompanying notes to the basic financial statements are an integral part of these financial statements.

DELAWARE AGRICULTURAL LANDS PRESERVATION FOUNDATION

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2009 and 2008

NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Nature of Activities

On July 8, 1991, the Governor of the State of Delaware (the State) signed House Bill 200 to amend Chapter 9, Title 3, of the *Delaware Code*. The legislation established a comprehensive agricultural lands preservation program to serve the long-term needs of the agricultural community and the citizens of Delaware. It is declared policy of the State to conserve, protect and encourage improvement of agricultural lands within the State for the production of food and other agricultural products useful to the public, which are grown, raised or harvested on lands and water in the State.

The Delaware Agricultural Lands Preservation Foundation (the Foundation) was created by this legislation to accomplish this mission by establishing Agricultural Preservation Districts of viable and productive farmland and forestland. The Foundation is directed to provide economic incentives and benefits to agribusiness, purchase development rights from landowners, encourage development in areas where infrastructures exist, and promote the agricultural industry and the concept of preserving viable land for the future.

The enabling statute for the Foundation established a trust fund. Monies for farmland preservation have come from the 21st Century Fund set up by the General Assembly under the control of the Secretary of Finance and released to accounts within the Delaware Department of Agriculture under the certification and subsequent control of the Secretary of Agriculture. Federal funds and monies from the Capital Budget, earmarked for agricultural lands preservation district creation, are also solely the responsibility of the Delaware Department of Agriculture. All accounting of these expenditures is within the State's accounting system, DFMS.

For the fiscal years ended June 30, 2009 and 2008, the General Assembly of the State provided funding for the Foundation under Senate Bill No. 229 in the amount of \$6,000,000 and \$10,000,000, respectively. Administrative costs of the Foundation are included in this funding and were in the amount of \$150,000 for each year. For the fiscal year ended June 30, 2008, the administrative funds were administered directly by the Foundation in separate fund accounts; the remaining \$9,850,000 each year was administered by the State. For the fiscal year ended June 30, 2009, all of the funds were administered by the State.

NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (CONTINUED)

2. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available.

Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Foundation considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The Foundation reports on only one fund which is the special revenue fund (a governmental fund type).

3. Cash and Cash Equivalents

Except for the checking account during fiscal year ended June 30, 2008, cash and cash equivalents of the Foundation were controlled by the State Treasurer's Office in Dover, Delaware. The checking account was controlled by the Foundation. The Foundation considers all cash and cash equivalents with maturities of less than 90 days to be cash and cash equivalents.

4. Receivables

All receivables are considered fully collectible by management. No allowance for bad debt is deemed necessary.

5. Capital Assets

The Foundation defines capital assets as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. If such assets were acquired, they would be reported in the government-wide financial statements and would be recorded at historical cost or estimated historical cost. Donated capital assets would be recorded at estimated fair value at the date of donation. Provisions for depreciation are made over the estimated useful lives of the respective assets (generally five years for equipment) using the straight-line method. Land is recorded at cost.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend lives of the assets are not capitalized.

6. Fund Balance

In the fund financial statements, governmental funds report an unreserved fund balance for amounts that are available for appropriation.

NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (CONTINUED)

7. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

8. Compensated Absences

It is the Foundation's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. A liability for these amounts is reported in the governmental funds only when the liability matures, for example, as a result of employee resignations and retirements.

Vacation – Employees are paid for their accumulated annual leave at their current salary, excluding all supplemental and premium pays, upon separation from the State only.

Sick Leave – Employees are paid for accumulated sick leave at their current salary, excluding all supplemental and premium pays, at retirement, upon commencement of long-term disability, or if laid off without prejudice for lack of work at the rate of 1 hour's pay for each 2 hours of sick leave.

9. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Foundation.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include grants and contributions that are restricted to meet the operational or capital requirements of a particular function. Taxes and other revenues are not properly included among program revenues and, thus, are reported instead as general revenues.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

10. Subsequent Events

The Foundation has evaluated subsequent events through December 15, 2009, which is the date the financial statements were available to be issued.

NOTE B – CASH AND CASH EQUIVALENTS

As of June 30, 2009 and 2008, the Foundation had a cash and cash equivalents balance of \$3,698,118 and \$10,005,987, respectively, and of that amount, \$3,698,118 and \$9,995,464, respectively, was part of an investment pool controlled by the State Treasurer's Office. These funds are considered to be highly liquid and available for immediate use and, thus, are recorded as cash equivalents in these financial statements.

The funds held by the State investment pool, an internal investment pool, are specifically identified for the Foundation, but the credit risk cannot be categorized for these funds. Credit risk for such investments depends on the financial stability of the State. The State reports that its investment securities are stated at quoted market prices, except that investment securities with a remaining maturity of one year or less at the time of purchase are stated at cost or amortized cost.

For fiscal year ended June 30, 2008, the Foundation had a checking account in its custody. This checking account was closed during July 2008. At June 30, 2008, the bank balance was \$28,227. The bank balance of cash deposits is insured by the Federal Deposit Insurance Corporation (FDIC) and, therefore, there is no custodial credit risk for these cash deposits. At June 30, 2008, the book balance was \$10,523.

NOTE C – ROLLBACK TAXES

Under the provisions of House Bills 200 and 630, rollback taxes under the Farmland Assessment Act are directed to be paid by New Castle, Kent and Sussex counties (the Counties) to the Foundation. In the Farmland Assessment Act of 1969, provision was made for a rollback tax. These rollbacks occur whenever land that qualified under the Farmland Assessment Act is changed from in use for agriculture to some other use. Under the provisions of House Bill 630, a change of use was further defined as changes in zoning, subdivision, building permits or certificate of occupancy status. On the day that such rollback takes effect, a tax obligation is created for the owner of record. The tax is computed as the difference between the taxes that would have been paid without Farmland Assessment and the taxes that were in fact paid under Farmland Assessment for five years previous to the date of change in use. This sum of money is due and payable to the Counties and is then directed by the Counties to two recipients.

The first recipient is the school district within which the property lies and the second is the Foundation. The share of the money from the rollback tax, which is computed for each of these recipients, is based upon their proportionate share of the tax rate, which was in effect during the five years on which the rollback was computed. Under statute, the Counties forward to the school district board the portion of the rollback tax attributable to the local school district. From the remaining funds, the Counties remove a 7.5 percent administrative fee as provided by statute and forward the remaining amount to the Foundation.

The Foundation records rollback taxes collected by the Counties as of June 30 but not remitted to the Foundation until a later date as rollback taxes receivable. The amount of the rollback taxes receivable was \$0 and \$32,473 at June 30, 2009 and 2008, respectively.

NOTE D – CAPITAL ASSETS

Capital assets activity was as follows for the years ended June 30:

	2009			Ending Balances
	Beginning Balances	Increases	Decreases	
Land	\$145,893,479	\$18,750,362	\$ -	\$164,643,841
Equipment	81,113	9,092	-	90,205
Less: accumulated depreciation	<u>(67,968)</u>	<u>(7,541)</u>	<u>-</u>	<u>(75,509)</u>
Equipment – net	<u>13,145</u>	<u>1,551</u>	<u>-</u>	<u>14,696</u>
	<u>\$145,906,624</u>	<u>\$18,751,913</u>	<u>\$ -</u>	<u>\$164,658,537</u>
	2008			Ending Balances
	Beginning Balances	Increases	Decreases	
Land	\$117,996,618	\$27,896,861	\$ -	\$145,893,479
Equipment	71,129	9,984	-	81,113
Less: accumulated depreciation	<u>(61,332)</u>	<u>(6,636)</u>	<u>-</u>	<u>(67,968)</u>
Equipment – net	<u>9,797</u>	<u>3,348</u>	<u>-</u>	<u>13,145</u>
	<u>\$118,006,415</u>	<u>\$22,900,209</u>	<u>\$ -</u>	<u>\$145,906,624</u>

NOTE E – ACCOUNTS PAYABLE

Accounts payable represents consulting/contractual services and legal expenses incurred by the Foundation prior to the end of the fiscal year but not paid until the following fiscal year. Accounts payable was \$12,920 and \$37,362 at June 30, 2009 and 2008, respectively.

NOTE F – PENSION PLAN

Foundation employees are considered State employees and are covered under the State's pension program. For fiscal years 2009 and 2008, the State contributed 15.95 percent of the State's share of employees' salary. Employees contributed 3 percent of salary in excess of \$6,000 per share up to social security maximum and 3 percent for any salary above social security maximum. Total pension cost of \$10,588 and \$10,739 is included in the financial statements in salaries and related expenses. Pension cost accrued at June 30, 2009 and 2008 was \$389 and \$814, respectively.

NOTE F – PENSION PLAN (CONTINUED)

Certain significant plan provisions follow:

- Early retirement
 - a. 15 years service and age 55
 - b. 25 years service and no age requirement
- Service Retirement
 - a. 15 years service and age 60
 - b. 30 years service and no age requirement
 - c. 5 years service and age 62
- Disability Retirement
 - a. 5 years service and proof of disability
- Vested Pension
 - a. 5 years of service.

The State's pension program is a defined benefit plan. More information on this plan is available in the Delaware Public Employee Retirement System (DPERS) Comprehensive Annual Financial Report. This report may be obtained by writing DPERS at Suite 1, McArdle Building, 860 Silver Lake Boulevard, Dover, Delaware 19904, by calling 1-800-722-7300, or visiting their website at www.delawarepensions.com/information/financials.shtml.

NOTE G – LEASE

The Foundation was committed under a capital lease for the copier equipment through November 1, 2007. The cost of the equipment at time of lease was \$75,503. Monthly payments, including principal and interest, totaled approximately \$5,000. For the years ended June 30, 2009 and 2008, the lease expense was approximately \$0 and \$10,000, respectively, and interest expense was approximately \$0 for both years. These expense amounts are all included in the operational expenses on the statement of net assets and in the equipment/fleet rental on the statement of revenue, expenditures and change in fund balances.

NOTE H – COMMITMENTS AND CONTINGENCIES

In the normal course of business, there are various outstanding commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services. The Foundation does not anticipate losses from these transactions.

NOTE I – DONATED LAND, FACILITIES AND SERVICES

The estimated fair market value of the donated land included in the financial statements as of June 30, 2009 and 2008 was \$5,922,841 and \$13,742,606, respectively.

The estimated fair market value of donated services and facilities received from the State of Delaware, Department of Agriculture, included in the financial statements was as follows as of June 30:

	<u>2009</u>	<u>2008</u>
Personnel	\$ 315,332	\$ 287,338
Travel	2,500	2,500
Contractual	5,870	5,870
Capital	-	6,000
Supplies	<u>7,500</u>	<u>7,500</u>
	<u>\$ 331,202</u>	<u>\$ 309,208</u>

REQUIRED SUPPLEMENTARY INFORMATION

DELAWARE AGRICULTURAL LANDS PRESERVATION FOUNDATION

BUDGETARY COMPARISON SCHEDULE – CONTRACTUAL FUND

BUDGET TO ACTUAL

For the Fiscal Year Ended June 30, 2009

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUE			
State aid	\$ 5,850,000	\$ 5,850,000	\$ -
Total revenue	5,850,000	5,850,000	-
EXPENDITURES			
Farmland preservation	5,500,000	11,814,357	(6,314,357)
Mapping	175,000	152,115	22,885
Legal fees	135,000	149,142	(14,142)
Annual site visits	40,000	40,000	-
Total expenditures	5,850,000	12,155,614	(6,305,614)
Net change in fund balance	\$ -	(6,305,614)	\$ (6,305,614)
Fund balance – beginning of year		9,913,516	
Fund balance – end of year		\$ 3,607,902	

The Foundation's budget is presented on the modified accrual basis of accounting.

The accompanying note to this schedule is an integral part of this required supplementary information.

DELAWARE AGRICULTURAL LANDS PRESERVATION FOUNDATION

BUDGETARY COMPARISON SCHEDULE – OPERATING FUND

BUDGET TO ACTUAL

For the Fiscal Year Ended June 30, 2009

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUE			
State aid	\$ 150,000	\$ 150,000	\$ -
Total revenue	150,000	150,000	-
EXPENDITURES			
Personnel	96,000	93,988	2,012
Supplies	-	1,215	(1,215)
Travel	-	360	(360)
Miscellaneous contractual	10,240	15,421	(5,181)
Advertising	3,500	8,483	(4,983)
Telephone	2,250	1,329	921
Auto rental	5,760	7,688	(1,928)
Insurance	3,500	2,285	1,215
Accounting and auditing	28,750	26,511	2,239
Total expenditures	150,000	157,280	(7,280)
Net change in fund balance	\$ -	(7,280)	\$ (7,280)
Fund balance – beginning of year		82,172	
Fund balance – end of year		\$ 74,892	

The Foundation's budget is presented on the modified accrual basis of accounting.

The accompanying note to this schedule is an integral part of this required supplementary information.

DELAWARE AGRICULTURAL LANDS PRESERVATION FOUNDATION

NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY REPORTING

June 30, 2009

NOTE A – BUDGETARY BASIS VS GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
(GAAP)

The budgetary comparison schedules on the previous two pages provide a comparison of the original and final budgets with actual data on a budgetary basis.

The contractual fund budget consists of \$5,850,000 in funds appropriated by the State to be used for the preservation of agricultural lands within the State. The operating fund budget consists of \$150,000 in funds appropriated by the State to be used for administrative purposes, such as personnel costs and mapping fees. Because the funds are used for different purposes, the Foundation creates two separate budgets. Together, the budgets encompass the \$6,000,000 in State funds received during fiscal year 2009 and are included in the special revenue fund in the financial statements.

The Foundation purchases development rights for farmland preservation as it becomes available. The value of these rights varies significantly. The excess cash reserve as of June 30, 2008 allowed the Foundation to purchase more development rights than originally budgeted for, resulting in significant negative budget to actual variances.

SUPPLEMENTARY INFORMATION



WHEELER • WOLFENDEN • DWARES
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Trustees
Delaware Agricultural Lands Preservation Foundation
Dover, Delaware

We have audited the financial statements of the governmental activities and special revenue fund of Delaware Agricultural Lands Preservation Foundation (the Foundation) as of and for the year ended June 30, 2009, and have issued our report thereon dated December 15, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects an entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with accounting principles generally accepted in the United States of America, such that there is more than a remote likelihood that a misstatement of an entity's financial statements that is more than inconsequential will not be prevented or detected by an entity's internal control.

To the Board of Trustees
Delaware Agricultural Lands Preservation Foundation

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by an entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Foundation's management, the Board of Trustees, Department of Agriculture, Office of the Governor, Office of the Controller General, Office of the Attorney General, Office of Management and Budget, and Department of Finance and is not intended to be, and should not be, used by anyone other than these specified parties.

Wheeler, Wolfenden & Dwares, PA

December 15, 2009
Wilmington, Delaware

DELAWARE AGRICULTURAL LANDS PRESERVATION FOUNDATION

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

For the Fiscal Year Ended June 30, 2009

SUMMARY OF AUDITORS' RESULTS

Basic Financial Statements

Type of auditors' report issued is unqualified.

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified that are not
 considered to be material weaknesses? _____ yes X none reported
- Noncompliance material to financial statements noted? _____ yes X no

FINDINGS – FINANCIAL REPORTING

Current Year Findings

There were no current year findings.

Status of Prior Year Findings and Questioned Costs

2008-01: Internal Control over Accounting Records and Financial Reporting – Finding resolved.